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SUBJECT: Taiwan Contemplates First WTO Safeguard Action Against PRC

¶11. (U) Summary: For the first time since its accession to the WTO in 2002, Taiwan has initiated import relief and dumping investigations against the PRC. Taiwan's towel manufacturers have requested relief in the face of rising PRC imports and Taiwan's International Trade Commission (ITC) and Ministry of Finance (MOF) have initiated separate investigations. The PRC sent a delegation that included government officials to attend the ITC hearing March 2 on possible import relief measures. This, too, marked a first in cross-Straits official contact. The ITC announced March 17 that it had found market disruption and would submit suggested remedies to the Ministry of Economic Affairs (MOEA) by April 16. Some Taiwan industries are reportedly considering whether to follow the towel manufacturers example, while others fear that the PRC may take retaliatory action against Taiwan exports. That some Taiwan legislators have seized on the opportunity to politicize the issue for a domestic audience will not help Taiwan's ability to resolve the dispute through WTO consultations with the PRC. End summary.

PRC Towel Exports Rise

¶12. (U) PRC exports of towels to Taiwan have almost doubled, increasing their share of the Taiwan towel market by 25 percentage points since 2002. According to Taiwan trade data, Taiwan imported 6,800 tons of towels from the PRC in 2004, accounting for 70 percent of the local market. By comparison, Taiwan imported 3,700 tons of towels from the PRC in 2002, a 45 percent share of the market. Meanwhile, the market share for Taiwan-made towels dropped from 14 percent in 2002 to 8 percent in 2004. The number of towel manufacturers in Taiwan has dropped from 200 firms at its peak to 60 firms today and some in the industry fear that the survival of the remaining manufacturers is threatened.

Two Cross-Straits Firsts

¶13. (U) At the prompting of Taiwan's Yulin Towel Association, the ITC, under Taiwan's Ministry of Economic Affairs (MOEA), initiated an import relief investigation against PRC towels in September 2005. This is the first such investigation against a PRC product since Taiwan's ITC was founded in 1982. The ITC held its first investigative hearing on March 2. On the same day, more than 1000 workers in Taiwan's towel manufacturing industry protested at the

Presidential Office, the Executive Yuan, the Legislative Yuan and the Ministry of Economic Affairs to publicize their concerns about the industry's inability to compete with cheaper imports.

¶14. (U) ITC Committee Member Huang Chih-dan, who presided over the hearing, said that the ITC is required by law to make a decision on whether towel makers have been injured by Chinese imports by March 25, 2006. Huang suggested the ITC might hold another hearing before deciding whether to recommend that Taiwan request WTO consultations with China that could lead to safeguard measures. If Taiwan were to initiate consultations under the WTO's safeguard provisions it would be the first time Taiwan has done so.

¶15. (U) MOEA Deputy Minister Steve Chen (Ruey-long) met with legislators March 7 to explain the ITC decision-making process. At that hearing, Taiwan Solidarity Union legislators Lai Hsin-yuan and Ho Ming-hao asked Chen to ask the ITC to announce its findings on March 14, noting that this date is the anniversary of the PRC passing the "Anti-succession Law." However, MOEA announced March 14 that the ITC decision would be announced March 17. On that day, the ITC ruled that Chinese towels had disrupted the local industry and that recommendations for relief would be submitted to MOEA within 30 days.

¶16. (U) Separately, MOF's Department of Customs Administration announced on March 1, 2006 that it would formally begin a dumping investigation against PRC towels. This is the first time that Taiwan has initiated an anti-dumping investigation against a Chinese product, although not the first time Chinese Taipei has initiated an anti-dumping investigation. The PRC has conducted a total of nine dumping investigations against Taiwan exports, including polybutylene terephthalate (PBT) resin, iron and steel, spandex, polyurethane, and unbleached kraft liner-board. MOF officials plan to visit the PRC to conduct an investigation on towel manufacturing

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in August 2006. They expect to be able to reach an initial decision on whether to impose a temporary anti-dumping tax on PRC towels in June and a final decision by late September 2006. In conjunction with the ITC decision, MOF announced that it would decide by May 26 whether Chinese towel imports were dumped on the Taiwan market. If dumping duties are to be imposed, Taiwan's Towel Industrial Technology Development Association has suggested an increase in import tariffs on Chinese-made towel imports from 10.5 percent to 50 percent.

PRC Sends Officials to Hearings in Taiwan

¶17. (U) Four PRC Ministry of Commerce (MOC) officials and three members of the China Chamber of Commerce for Import and Export of Textiles (CCCT) came to Taiwan in the capacity of CCCT supervisory board members to attend the ITC hearing. The MOC officials included Fair Trade Bureau Director Chen Yongru, Taiwan Affairs Department Official Yang Tao, and Foreign Trade Office in Charge of Textiles Exports Director Huang Yuefeng. They attended the hearing but did not participate in the proceedings. CCCT Vice Chairman Cao Xinyu made comments in the hearing but refused to respond to some Taiwan inquiries. An attorney and an accountant appointed by the PRC took the lead in arguing the case for PRC manufacturers.

Towel Case Causes Hope and Fear for Other Industries

¶18. (U) Labor-intensive traditional industries, including other textile manufacturers, as well as soap, furniture, ceramics and tile producers, are reportedly watching closely the outcome of the ITC investigation and, if the towel-manufacturers are successful, may consider filing similar complaints against PRC imports. However, Taiwan's iron and steel producers fear that the PRC will retaliate against any anti-dumping measures by restricting or harassing Taiwan iron and steel producers doing business in China. Taiwan's iron and steel exports have faced similar dumping charges from their Mainland competitors in the past.

Comment: Communication Continues on Economic Issues

19. (SBU) Despite rising cross-Straits tensions since President Chen Shui-bian's announcements on the National Unification Council and Guidelines, the attendance of PRC officials at the ITC's hearing demonstrates that cross-Straits exchanges on economic issues continue. It is another example of how the two sides have the capacity to communicate on a broad range of economic issues when politics are kept out of the picture. Taiwan's MOF and ITC began looking at this case last year in response to domestic complaints from towel manufacturers and AIT sees no indication that the process to date has been manipulated by the administration to target China. However, given the eagerness of some politicians to seize on this issue as a means to burnish their domestic political credentials, the Taiwan government may find it difficult to keep discussions on a purely technical level.

110. (SBU) The ITC is widely expected to recommend that the MOEA request consultations with China under the WTO framework. It is not clear whether China would agree to WTO consultations with Chinese Taipei in any case, but if the announcement of the ITC's findings had been linked to the anniversary of the anti-succession law, it would have made consultations more difficult. MOEA's decision to wait until March 17 to announce the ITC findings suggests they are trying to keep this dispute on a technical level as much as possible. If consultations are unable to resolve the issue successfully, Taiwan could initiate safeguard measures as early as June 2006. This would coincide with the Ministry of Finance's expected June decision on whether to impose preliminary anti-dumping duties on imports of Chinese towels.

YOUNG